

There is some logic to the markets' gloom

Returning from a public holiday to see the roller-coaster in US Treasuries, there is clearly more to market despondency than just a technical correction - the spread of the pandemic in Asia is a good place to start looking for answers...



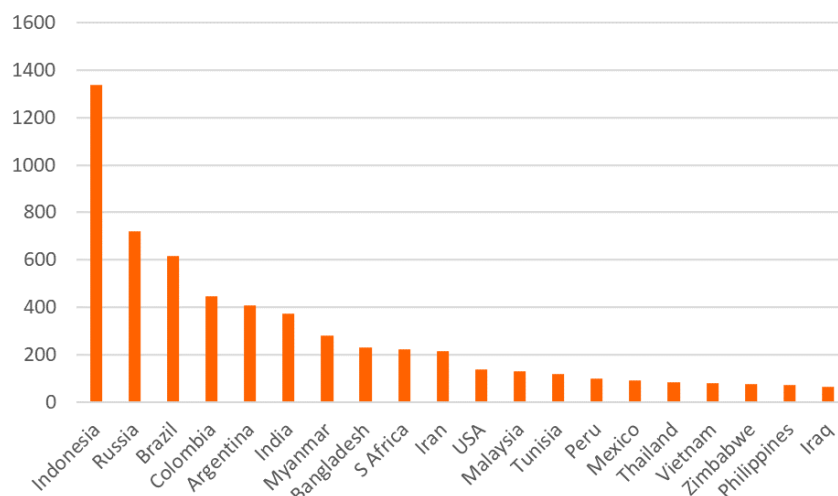
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Deaths from Covid-19

Indonesia - yesterday

Daily (confirmed) deaths from Covid-19 (20 July, 2021) - top 20 by country



Source: Worldometer

How to look at the Pandemic

It is clear that we need to move on from fixating on daily case numbers for Covid - and for those who are subscribers, there is an excellent article by Rachel Rosenthal of Bloomberg on this subject which I can recommend to anyone finding themselves facing fresh movement restrictions again.

I've stopped focussing on case numbers, and now prefer to look at deaths. OK, that didn't sound quite how I wanted it to, but let me put it another way. While there has long been some considerable doubt about the veracity of the confirmed case figures reported, and not just from emerging economies like India, Indonesia, and Thailand for example, deaths are binary. Deaths are harder to hush up. And though they can be explained by other things, I suspect the degree of official obfuscation in such numbers may be a magnitude smaller than those for daily cases.

As my colleague writes later in this note, Indonesia is mulling lowering its harshest restriction measures. It is taking solace from case numbers that have fallen from near 60,000 a day to the high 30,000s currently. But the daily death tally - admittedly a lagging indicator of daily figures, is one of the world's highest, also reflecting that Indonesia is one of the world's least vaccinated countries. Indonesia's daily death tally also does not yet appear to have peaked.

The rank of countries that follows Indonesia is interesting. Russia is in second place followed by a grim trio of Latam countries before we start hitting some Asian names. At the lower end of this morbid top-20, the Philippines may conclude that its measures may be beginning to bear fruit - daily deaths from Covid are steady at about 100. Though whether this is sufficient to significantly ease restrictions when vaccination rates remain low, is another matter. Daily deaths in Malaysia, Vietnam and Thailand are rising steeply. This doesn't seem like the time to be easing back on the restrictions, and means that forecasters like ourselves need to keep looking at our numbers to ask, do we have GDP too high, should we ease back on the FX forecast (the answer to both is probably yes).

Markets reflecting this

While some of the world is shrugging off rising infections as vaccination rates limit the severity of any symptoms of new cases, there are few parts of the world that can totally ignore this. And more than halfway through 2021, it is worth contemplating if market movements are really so remarkable as 2021 turns out to be not so different to 2020, will 2022 really be all that much better? There will still be a lot of economies that have a long way to go to reach the maximum possible vaccination rates by 2022 - and some may have done so with ineffective but more accessible vaccines against new variants.

While this remains the case, and movement restrictions are seen as the authorities' only response to rising daily cases, the idea of a synchronous global recovery looks as full of holes as it did back in January 2020, when market forecasters were using that concept as an excuse for their estimates.

Even so, it also feels like the doom and gloom has been well priced in. With Treasury yields back to about 1.12 this week before bouncing, they barely exceeded anticipated peak Fed funds this cycle according to the USD OIS curve, which even at its furthest, barely has a peak policy rate of more than 1.0%. Nearer term, there is about 50bp priced in over the foreseeable horizon (up to 4 years). That seems at odds with the US growth and inflation story, and I can imagine that there is now a growing chance that the next big move will be in the other direction after such a big bond market rally. I just wouldn't bet on it being imminent.

Asia today

We have already had two batches of trade data out of Asia this morning, the June figures for Japan, which showed stronger imports weighing on the trade balance, which in adjusted terms turned into a small deficit of JPY90.2bn (consensus had been for +JPY28.2bn), and there were also some stronger Korean 20-day trade figures, with again, imports showing the biggest gains and likely to squeeze Korea's June surplus when those figures are released.

Nicky Mapa in Manila writes on the Indonesian situation, "President Jokowi announced plans to possibly reduce mobility restrictions by 26 July should daily infections continue to decelerate. Indonesia has experienced a slowdown in new infections however cases remain quite elevated and hospital capacity continues to be stretched. Authorities indicated they would like to balance the health and economic impact of the surge and the possible lowering of restrictions comes after both the Asian Development Bank (ADB) and S&P ratings lowered their GDP forecasts for Indonesia. We have trimmed our full-year 2021 GDP to 3.7% (from 3.9%) with a half percentage point reduction to 3Q GDP and slowing growth likely to convince Bank Indonesia (BI) to keep rates steady on Thursday".

And Prakash Sakpal notes for Singapore, "The authorities announced the reimposition of Phase-2 Covid-19 restrictions starting tomorrow for a month as daily new cases jumped to a one-year high of 195 yesterday, including 182 homegrown infections. Similar measures from mid-May to mid-June dented Singapore's GDP by -2% QoQ in 2Q. The latest move raises the prospect of another negative quarter of GDP in 3Q -- a technical recession. We stick to our below-consensus full-year 2021 GDP growth view of 4.9% against the consensus forecast for 6.5%. But our end-year USD/SGD view of 1.37 needs further upward revision as the exchange rate has almost reached there now (spot 1.3667)".

We probably have a bit of forecast revision work to do elsewhere too...

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